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GOVERNORS

July 15, 2004

The Honorable Dennis Hastert
Speaker
U.S. House of Representatives
Washington, D.C. 20515

The Honorable Bill Frist, MD
Majority Leader
U.S. Senate
Washington, D.C. 20510

The Honorable Charles Grassley
Chairman
Committee on Finance
U.S. Senate
Washington, D.C. 20510

The Honorable Bill Thomas
Chairman
Committee on Ways & Means
U.S. House of Representatives
Washington, D.C. 20515

Dear Speaker Hastert, Leader Frist, Chairman Grassley and Chairman Thomas:

As you move to appoint a conference committee which will have the important task of reconciling S. 1637 and H.R. 4520, legislation to reform the United States' Foreign Sales Corporation/Extraterritorial Income (FSC-ETI) tax regime, we ask that you consider our views. We applaud your leadership in passing these important bills through the House and Senate and know that the tasks still facing you to reach consensus will not be easy. Our hope is, by providing a united voice on a few important issues, we can be of assistance to you in this process.

As Governors of the four most populous states, we represent over one-third of the nation's gross domestic product. Our states employ over 43 million people and represent the largest agricultural, manufacturing, technology, tourism and service-based economies in the country. We share your urgency to enact law that will end the billions of dollars in current and threatened tariffs on U.S. exports authorized by the World Trade Organization. Additionally, we agree that new law should promote domestic job growth to further boost America's strong economy.

Several provisions which will be considered by the conference committee are of great interest to us and we urge your inclusion of all of the items outlined below in the final conference report.

Temporary Tax Relief for Repatriated Income Both bills contain a provision to reduce the tax rate on repatriated income if that income is permanently reinvested in the U.S. The temporary removal of this obstacle to domestic reinvestment of profits earned by U.S. companies selling American products overseas is estimated to bring \$300-\$400 billion of foreign earnings back to the U.S., resulting in the creation of hundreds of thousands of jobs and substantial investment in new plant and equipment purchases in our states and throughout the country.

However, given that the Senate and House passed slightly different versions we would prefer that the Senate provision be included in the final bill.

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Energy Provisions The energy tax provisions included in the Senate legislation are of great importance to our states. Including provisions to encourage utilization of traditional energy sources, renewable energy resources, alternative fuels and energy efficiency are essential to our efforts to provide the infrastructure that power the plants and machines that manufacture products and harvest foods.

Among these provisions, the expansion of the renewable energy tax credit, credits to improve the efficiency of buildings and devices, and accelerated depreciation for transmission assets stand out as critically needed tools to expand our ability to generate clean energy, manage electricity demand and improve electricity transmission infrastructure. Of additional importance are provisions to encourage the use of alternatively fueled vehicles, extend the Section 29 production credit, and accelerate depreciation for natural gas distribution facilities. We request that these, or equivalent provisions from the Conference Report to H.R. 6, be included in the final conference report.

Incentive to Stop Runaway Film Production S. 1637 includes a provision to allow immediate expensing of production costs for qualifying films made in the U.S. We think it vitally important that this Senate provision be incorporated in the conference report. In recent years, virtually every industrialized nation has adopted incentives to attract U.S. film production. These countries recognize the substantial benefits that accrue to their local economies from film production, including employment for below-the-line workers, such as carpenters, electricians, caterers, drivers and seamstresses, many working for small businesses or as independent contractors.

The common rule is that every $1 in production generates between $2-$5 in revenues to the local economy due to the multiplier effect. This provision would do much to bring back jobs and reduce the negative economic impact of runaway productions, estimated by the U.S. Department of Commerce in a 2001 report to be as much as $10 billion per year. Our states collectively represent over 70% of the total economic value derived from the film industry nationwide, and we ask your support to preserve the Senate language in the final bill.

State Sales Tax Deduction We further encourage the inclusion of House language that would allow citizens of all states the option to deduct state sales taxes or state income taxes from their federal income tax returns. Prior to 1986, taxpayers were permitted to deduct most state and local taxes when determining their federal tax liability. In fact, since the sales tax exemption was repealed in 1986, taxpayers in states who pay state and local income taxes have been allowed to deduct a portion of their state income taxes on their federal returns. Citizens from states who pay sales taxes to fund state programs, however, have not been allowed a comparable deduction. The inclusion of this deduction would level the playing field for all citizens and states, boost our state economies, and allow hard-working taxpayers the opportunity to keep more of their money.

Extension of Liberty Zone Programs Both the House and Senate bills would extend the authority for New York State and City to issue the important tax exempt Liberty Bonds, a critical component in the revitalization of Lower Manhattan after the attacks of September 11, 2001. Liberty Bonds have financed the construction and rehabilitation of numerous commercial and residential projects, but other critical projects are not yet ready to meet the original 2004 deadline. This extension, which was included in the President's FY 2005 budget request, is tied to provisions which would also expand the tax incentives to replace property in the Liberty Zone damaged or destroyed on September 11, 2001. In addition, the Senate bill extends the authority of the State and City, for an additional year, to advance refund existing bonds. Through these programs, the administration and Congress have provided essential assistance as the State and City continue to recover and rebuild from the attacks of September 11th, and extending the programs will ensure that those efforts are properly completed.

Extension of Research & Development Tax Credit One of the stated goals in the reform of the FSC-ETI tax regime is to stimulate job growth and ensure the long term health of the U.S. economy. History has demonstrated that technological and productivity gains come from investment in developing advances utilizing human and physical capital. Past domestic investment in research and development has yielded exponential benefits to American workers and consumers. According to a 2004 report by Ernst & Young, over 12,000 companies in our four states represent over 35% of all national research and development activity, creating new technologies, medical breakthroughs and jobs. Extension of this credit, which primarily credits companies for the wages and supplies of qualified research activity, is absolutely imperative for future domestic innovation and economic growth.

Thank you, in advance, for consideration of our views. We stand ready to assist your efforts and will be glad to reach out to our 139 House members and eight Senators to communicate further how important each of the above provisions, and the passage of a bill including these provisions, is to our states.

Sincerely,

George E. Pataki

Jeb Bush

Rick Perry

Arnold Schwarzenegger

Cc: New York Congressional Delegation
Florida Congressional Delegation
Texas Congressional Delegation
California Congressional Delegation